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SUBJECT: INTERNATIONAL COMPACT WITH IRAQ: OCT 31 PG MEETING STRESSES PRIORITIZATION, NEXT STEPS

**¶11. (SBU) SUMMARY.** At the Oct. 31 meeting of the Preparatory Group (PG) for the International Compact with Iraq (ICI), the PG achieved broad consensus that the current iteration was satisfactory, and that critical next steps include reaching out to a broader range of countries for participation in the Compact process, and finalizing commitments with the aim of signing the ICI at the ministerial level within a month to six weeks. Some PG members also raised defining priority areas and the implementation process. Ranking members of the Iraqi Council of Representatives expressed their support for the ICI. D/S Robert Kimmitt outlined planned USG commitments to the ICI and engaged Iraqi officials bilaterally on a range of issues including inflation, donor commitments, and Compact next steps. END SUMMARY.

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PG Meeting: Draft Accepted, Next Steps  
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**¶12. (SBU)** At the Oct. 31 meeting of the Preparatory Group for the International Compact with Iraq at the Kuwaiti Fund in Kuwait, the PG achieved broad consensus that the current iteration was satisfactory, and that, except for minor corrections, reopening the text to major revisions would be counter-productive. Participating were delegations from the EU, EC, Italy, Germany, Spain, France, Japan, Korea, US, UK, World Bank, IMF, UN, Saudi Arabia, UAE, Islamic Development Bank, and a range of GOI officials, including DPM Barham Salih, Minister of Planning Ali Baban, and Central Bank Governor Sinan Shabibi. Kuwait's Foreign Minister, Sheikh Mohammad al-Sabah, opened the session by emphasizing the need for the GOI to demonstrate leadership in the process, identify investment needs and an implementation mechanism, and reach out to donor countries to explain the ICI. Throughout the day, several themes were discussed among PG members. These are:

**¶13. (SBU) Political/Security Context:** The Japanese and Korean delegations further suggested including political/security benchmarks in the Joint Monitoring Matrix (JMM), although other delegations failed to support this suggestion, given the consensus that the draft Compact should not be re-opened for major revision. There was broad support for the notion that an improved security situation was fundamental for the success of the Compact.

**¶14. (SBU) Outreach:** Many delegations, including the EC, UK, EU, and World Bank, articulated the need to move the focus of the PG away from additional textual iterations of the Compact documents, and toward widening the circle of participation in the Compact process. DPM Salih, in closing remarks, confirmed this consensus, and he and UNDP assistant administrator Ad Melkert proposed a meeting at UNNY to include the group of countries from the Sept. 18 meeting to gain the widest possible participation. Some participants, including UN DepSecGen Mark Malloch Brown, participating via DVC, emphasized the need to encourage smaller donors to engage in the Compact process. Brown and DPM Salih also stated the UN and GOI will undertake a "roadshow" with select PG members in the coming months, to visit

capitals of potential donors and articulate the importance of their full participation in the Compact process. Salih added a call for PG members' assistance in encouraging engagement by potential donor countries with which they may have influence, while stressing that visible GOI leadership in the effort is essential.

**¶4. (SBU) Implementation:** The World Bank, Canada, EU, and the EC agreed on the need for the PG to define before the final PG meeting the ICI implementation mechanism. The EU also stressed the need for the implementation effort to be GOI-led.

**¶5. (SBU) Prioritization/Sequencing:** In light of the Compact draft having taken on substantial length during the drafting process, the EU, UK, EC and World Bank delegations emphasized the need to identify priorities and a plan for sequencing the many goals outlined in the Compact document, particularly in the JMM. This call was echoed by Deputy Prime Minister Barham Salih and Minister for Planning Ali Baban, with Salih promising to undertake this effort in consultation with the World Bank and UN in the next few weeks. Such prioritization, particularly if clearly articulated in the JMM, could play a useful role in refining the focus of the Compact document on key areas for Iraq's economic development. As a part of the prioritization effort, the World Bank, the UN and other delegations stressed the need to identify "quick wins" that could provide short-term gains in the period immediately following the Compact signing.

**¶6. (SBU) IRFFI:** Canada, in their capacity as IRFFI chair, stressed the need for a "recalibration" of the organization to strengthen their points of contact with the ICI, and ensure IRFFI supports the priorities of the GOI, the World Bank, and the UN. They stressed, however, the need to do so without changing the legal underpinnings of the organization. Many delegations noted that IRFFI remains an effective tool for providing a framework for donor contributions,

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including in the context of the Compact.

**¶7. (SBU) Mutual Commitments:** Commitments for donor support articulated at the meeting include the following: EU: negotiating a trade treaty the GOI, debt relief under Paris Club terms, technical assistance, financial assistance though grants, community assistance programs, dialogues on energy and political issues, and bilateral assistance programs by EU member nations; Japan: financial contributions, though grants and soft loans (including \$3.5 billion currently being implemented), debt relief, technical assistance, IRFFI contributions, infrastructure development in the energy sector, programs for basic human needs, governance and security; Korea: on-going programs for capacity building, education, vocational training, health, energy and electricity, debt forgiveness under Paris Club terms (totaling \$2.8 billion), new funding this year under the ICI for \$40 million, and programs for 2008 are currently under discussion; Italy: interventions in all categories in paragraph 6.3 of the Compact draft, especially security-related technical assistance, training in a range of sectors, notably in antiquities, soft loans, and programs in infrastructure development; Islamic Development Bank: reaffirmation of previous agreements, particularly a \$500 million package, of which \$245 million are for energy and essential services projects and \$50 million in free loans; Saudi Arabia: ID 200 million in grants for education. The UK outlined general areas for targeted support, including economic management, the energy sector and support for reconciliation. The EC delegation indicated general areas for support would include capacity-building, non-monetized support such as the EU trade agreement. Germany, France and Spain did not discuss commitments.

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D/S Kimmitt Comments and USG Commitments  
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**¶8. (SBU)** In opening remarks, D/S Kimmitt, heading the USG delegation, stressed a need for clarification of priority actions in the immediate term. He emphasized that the Iraqis have done all that has been asked of them in the Compact process so far in detailing reform commitments, and that now is the time for

commitments from the international partners that will enable Iraq to meet its goals. He also underscored the importance of the political signal a successful ICI process will send.

¶9. (SBU) In remarks on Compact implementation and ways forward, D/S Kimmitt outlined five keys areas of additional planned and on-going US support: 1) full debt forgiveness, 2) technical assistance, 3) investment promotion activities, including OPIC and other programs, 4) development assistance, and 5) security assistance, including a request for billions of dollars for support for Iraq's security forces, which would not only enhance security but would also free up funds for other uses. Kimmitt pledged that more detail on these commitments would be presented at the ministerial meeting, which Secretary Rice would attend. He pointed out the financing gap

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between Iraq's investment needs and the internal and external resources available to it, and noted that IRFFI provides experience and infrastructure in helping facilitate donor commitments, and urged the IFIs, especially those based in the Gulf region, to play an active role. He also stressed the importance of improving the GOI's budget execution.

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COR Participation  
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¶10. (SBU) Two committee chairmen at the Iraqi Council of Representatives participating in the PG meeting, expressing support for the Compact process. Shaykh Humam Hamoudi, Chairman of the Foreign Relations Committee, applauded the draft of the ICI, and adding that the GOI will follow up to adopt the Compact and turn the pledges in the ICI into actual programs on the ground. He also stressed the value of the Compact process in bringing donor countries such as Iran into the process, and that political and security reform must happen in parallel with the economic reforms outlined in the ICI. Haider al-Abadi, Chairman of the Economic Committee, stated that the COR has committed itself to national development, and applauded the ICI as a mechanism for working toward that goal. He pointed to the draft Investment Law as a demonstration of the COR's commitment to economic reform and an open economy. He noted, however, that the COR faces a challenging schedule of legislative priorities, and that the body is "learning as we go."

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Additional GOI Comments  
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¶11. (SBU) In his remarks to the PG, Ali Baban, Minister of Planning

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and Development Cooperation (MOPDC), Baban highlighted Iraq's efforts to prioritize and organize itself to handle the challenges presented by the Compact. He said that broadly speaking the guidelines of his agency were to align Iraq' budgets and development efforts with the National Development Strategy, Iraq's "grand plan" for achieving its "national vision." The immediate challenge is to plan for how best to invest the planned-for 70% increase in Iraq's 2007 capital budget. His priorities for deciding where the funds should go relate to pressing needs to address unemployment and underemployment, as well as problems for the environment and desires to encourage the private sector, focused on three sectors: agriculture, industry and banking. He also stressed the difficult political and security situation in Iraq and that beginning to show progress on the economic front will be part of the solution.

Deputy Secretary Kimmitt cleared this cable.

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